

REPORT OF EXAMINATION
OF THE
VINTAGE INSURANCE COMPANY
AS OF
DECEMBER 31, 2003

Filed June 24, 2005

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San Francisco, California
April 1, 2005

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

VINTAGE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 777 San Marin Drive, Novato, California 94998.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 1999. This examination covers the period from January 1, 2000 through December 31, 2003. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2003, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

COMPANY HISTORY

This Company was incorporated under the laws of California on May 10, 1989 as the San Francisco Automobile Insurance Company. Effective March 26, 1993, the current name was adopted.

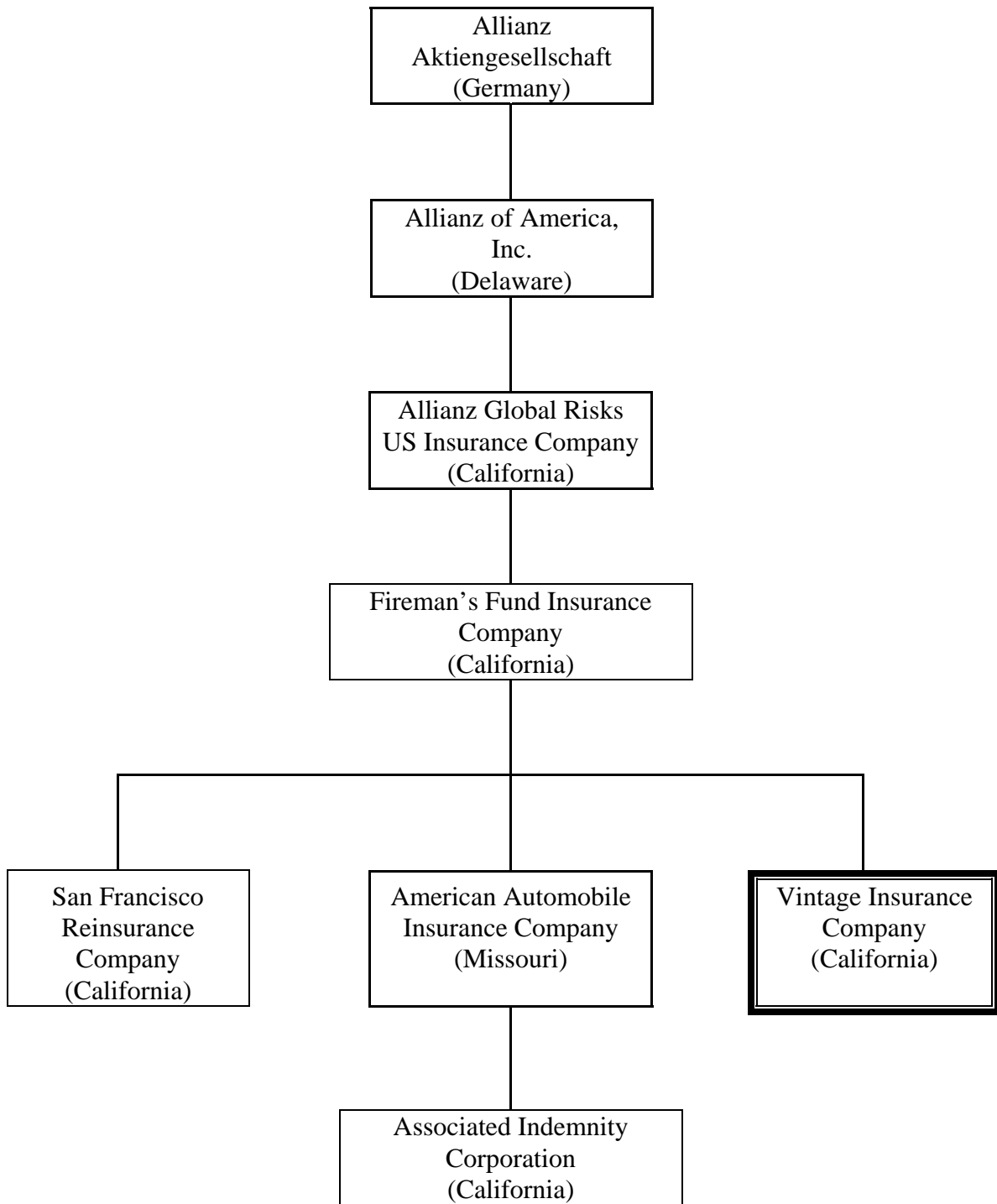
Capitalization

Capital paid-in of \$7 million consists of 7,000 common shares at a par value of \$1,000 per share. Of the 10,000 authorized shares, 7,000 are issued and outstanding.

All outstanding shares of the Company are owned by its parent company, Fireman's Fund Insurance Company, a subsidiary of Allianz Global Risks US Insurance Company (formerly Allianz Insurance Company), a subsidiary of Allianz of America, Inc., a subsidiary of Allianz Aktiengesellschaft Holding.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. Allianz Aktiengesellschaft (Allianz AG), a corporation organized in Munich, Germany, is the ultimate controlling entity. The chart on the following page depicts the interrelationship of the Company and its California subsidiaries within the holding company system (all ownership is 100%):



The board of directors, which is comprised of six members, manages the business and affairs of the Company. Following are members of the board of directors and principal officers of the Company serving at December 31, 2003:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Peter Huehne (a) Tiburon, California	Executive Vice President and Chief Financial Officer Fireman's Fund Insurance Company
Janet S. Kloenhamer Larkspur, California	Senior Vice President, General Counsel and Corporate Secretary Fireman's Fund Insurance Company
H. David Lundgren Tiburon, California	Executive Vice President Fireman's Fund Insurance Company
Thomas E. Geissler Mill Valley, California	Executive Vice President Fireman's Fund Insurance Company
Jeffrey H. Post (b) Novato, California	President and Chief Executive Officer Fireman's Fund Insurance Company
Alastair C. Shore Novato, California	Senior Vice President Fireman's Fund Insurance Company

(a) Appointed CFO of Allianz of America (AZOA) effective January 1, 2004. Peter W. Presperin was appointed CFO of the Company effective January 1, 2004. Prior to this appointment, Mr. Presperin was the Director of Discontinued Operations at FFIC. He resigned as CFO of the Company in October 2004 and was replaced by Jill Patterson.

(b) Resigned in May, 2004 and was replaced by Charles Kavitsky, who previously held the position as President of Allianz Life Insurance Company.

Principal Officers

<u>Name</u>	<u>Title</u>
Jeffrey H. Post (a)	Chairman of the Board, President and Chief Executive Officer
Peter Huehne (b)	Executive Vice President and Chief Financial Officer
Janet S. Kloenhamer	Senior Vice President, General Counsel and Corporate Secretary
Linda E. Wright	Senior Vice President and Treasurer

- (a) Resigned in May, 2004 and was replaced by Charles Kavitsky, who previously held the position as President of Allianz Life Insurance Company.
- (b) Appointed CFO of Allianz of America (AZOA) effective January 1, 2004. Peter W. Presperin was appointed CFO of the Company effective January 1, 2004. Prior to this appointment, Mr. Presperin was the Director of Discontinued Operations at FFIC. He resigned as CFO of the Company in October 2004 and was replaced by Jill Patterson.

TERRITORY AND PLAN OF OPERATION

During 2003, the Company ceased writing new business. All existing business is being renewed through the Company or its affiliates in the Fireman's Fund Insurance Company (FFIC) group of companies. Previously, the Company wrote primarily private passenger automobile business in the State of California, the only state in which the Company is licensed. FFIC management is currently reviewing its options for the Company and may sell the Company pending regulatory approval.

REINSURANCE

The Company had no assumed or ceded premium written during the period covered by this examination, and maintains no liability for assumed losses or loss adjustment expenses as of December 31, 2003.

ACCOUNTS AND RECORDS

Information Systems Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of this review, recommendations for improving the Company's information systems controls were developed and presented to the Company. The recommendations covered areas such as logical security, physical security and program changes. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2003

Underwriting and Investment Exhibit for the Year Ended December 31, 2003

Reconciliation of Surplus as Regards Policyholders from December 31, 1999
through December 31, 2003

Reconciliation of Examination Changes as of December 31, 2003.

Statement of Financial Condition
as of December 31, 2003

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 6,950,787	\$	\$ 6,950,787	(1)
Common stocks	0		0	(2)
Cash on deposit	8,999,390		8,999,390	
Other invested assets	1,053,505		1,053,505	(2)
Investment income due and accrued	41,913		41,913	
Net deferred tax asset	(643)	(10,849)	10,206	
Receivable from parent, subsidiaries and affiliates	<u>125,246</u>	<u></u>	<u>125,246</u>	
Total assets	<u>\$17,170,198</u>	<u>\$ (10,849)</u>	<u>\$17,181,047</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ (502,299)	(3)
Loss adjustment expenses			214,951	
Other expenses			5,708	
Taxes, licenses and fees			(4,600)	
Current federal and foreign income taxes			292,083	
Unearned premiums			<u>34,011</u>	
Total liabilities			39,854	
Common capital stocks		\$7,000,000		
Gross paid-in and contributed surplus		3,000,000		
Unassigned funds (surplus)		<u>7,141,193</u>		
Surplus as regards policyholders			<u>17,141,193</u>	
Total liabilities, surplus and other funds			<u>\$17,181,047</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2003

Statement of Income

Underwriting Income

Premiums earned		\$ 112,258
Deductions:		
Losses incurred	\$(487,841)	
Loss expenses incurred	(103,497)	
Other underwriting expenses incurred	<u>13,423</u>	
Total underwriting deductions		<u>(577,915)</u>
Net underwriting gain		690,173

Investment Income

Net investment income earned	\$ 234,744	
Net realized capital gains	<u>16,451</u>	
Net investment gain		<u>251,195</u>
Net income before federal and foreign income taxes		941,368
Federal and foreign income taxes incurred		<u>149,963</u>
Net income		<u>\$ 791,405</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2002		\$16,411,694
Net income	\$791,405	
Change in net deferred tax	(72,755)	
Change in nonadmitted assets	<u>10,849</u>	
Change in surplus as regards policyholders		<u>729,499</u>
Surplus as regards policyholders, December 31, 2003		<u>\$17,141,193</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 1999 through December 31, 2003

Surplus as regards policyholders, December 31, 1999, per Examination	\$13,849,123
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	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$3,281,864	\$	
Change in net deferred income tax		643	
Change in nonadmitted assets	<u>10,849</u>	<u> </u>	
 Total gains and losses	 <u>\$3,292,713</u>	 <u>\$ 643</u>	

Net increase in surplus as regards policyholders	<u>3,292,070</u>
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Surplus as regards policyholders, December 31, 2003, per Examination	<u>\$17,141,193</u>
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Reconciliation of Examination Changes
as of December 31, 2003

	<u>Per Company</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>	<u>Notes</u>
<u>Assets</u>				
Common Stocks	\$1,053,505	\$ 0	\$ (1,053,505)	(2)
Other invested assets	0	1,053,505	<u>1,053,505</u>	(2)
Net change to surplus			0	
Surplus as regards policyholders, December 31, 2003, per Company			<u>17,141,193</u>	
Surplus as regards policyholders, December 31, 2003, per Examination			<u>\$17,141,193</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds

The Custodian Agreement (Agreement) dated October 1, 1998 between the Company and Mellon Trust of California does not adhere to the guidance regarding Custodial and Safekeeping Agreements provided by the National Association of Insurance Commissioners' Financial Examiners Handbook in the following areas:

- a. The Agreement states "At its option, the Custodian may commingle any assets deposited hereunder with assets held by the Custodian on behalf of others." The agreement should clearly state that certificated securities of the insurance company shall be held separate from all other securities or in a fungible bulk. Those securities held in a fungible bulk by the custodian, in a clearing corporation, or in the Federal Reserve book-entry system, shall be separately identified on the custodian's official records as being owned by the insurance company.
- b. If the Agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of the termination or withdrawal, to the insurer's domiciliary commissioner; and
- c. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control; and
- d. The custodian shall secure and maintain insurance protection in an adequate amount.

It is recommended the Company revise its Agreement with Mellon Trust of California to include provisions recommended by the National Association of Insurance Commissioners' Financial Examiners Handbook. It is also recommended the Company submit the revised Agreement to the California Department of Insurance (CDI) for approval.

(2) Common Stocks and Other Invested Assets

The Company classified Allianz Cash Pool LLC, a limited liability company, as common stock and reported it on Schedule D, Part 2, Section 2. SSAP No. 48, paragraph 6 of the NAIC Accounting Practices and Procedures Manual specifies that investments in joint ventures, partnership and limited liability companies be reported on Schedule BA, Other Invested Assets. The value of the Allianz Cash Pool LLC at December 31, 2003 was \$1,053,505. This asset has been reclassified to Other Invested Assets per examination. It is recommended that the Company classify Allianz Cash Pool, LLC as Other Invested Assets and report it in Schedule BA

(3) Losses and Loss Adjustment Expenses

The CDI, pursuant to California Insurance Code (CIC) Section 733(g), retained a consulting actuary for the purpose of providing a full actuarial evaluation of the Company's loss and loss adjustment expense reserves as of December 31, 2003. The results of the evaluation indicated that the Company's loss and loss adjustment expense reserves were reasonably stated.

The Consulting Actuary noted that the Company's provision for gross reserves was unreasonably high, whereas the Company's provision for net reserves was unreasonably low. Upon further review, it was noted that the Company incorrectly reported \$(502,299) in loss reserves and \$214,951 in loss adjustment expense reserves at December 31, 2003. The Company discovered this error after the 2003 Annual Statement was filed with the CDI. An entry was made in the first quarter of 2004 to correct this error; however, the entry was incorrect, resulting in even higher negative loss reserves. At March 31, 2004 the Company reported \$(1,072,940) in loss reserves and \$3,352 in loss adjustment expense reserves. The Company recorded correcting entries in the second quarter of 2004, resulting in loss reserves of \$109,673 and loss adjustment expense reserves of \$400,086 at

June 30, 2004. An examination adjustment was not made, as the offset to the increase in reserves would be an increase in receivable from parent, hence no impact to policyholder surplus. It is recommended the Company implement controls to ensure that its financial statements are free from material misstatement.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Information System Controls (Page 6): As the result of our review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

Comments on Financial Statement Items – Bonds (Page 11): It is recommended the Company revise its Custodial Agreement with Mellon Trust of California to include provisions recommended by the NAIC Financial Examiners Handbook. It is also recommended the Company submit the revised Agreement to the California Department of Insurance (CDI) for approval.

Comments on Financial Statement Items – Common Stocks and Other Invested Assets (Page 12): It is recommended that the Company classify Allianz Cash Pool, LLC as Other Invested Assets and report it in Schedule BA.

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 12): The Company recorded correcting entries in the second quarter of 2004. It is recommended the Company implement controls to ensure that its financial statements are free from material misstatement

Previous Report of Examination

Accounts and Records - (Page 6): It was recommended the Company institute policies and procedures to analyze and evaluate general ledger accounts on a regular basis. The Company performed a review of general ledger accounts and implemented controls to ensure that the general ledger accounts are reviewed and reconciled on a timely basis.

Comments on Financial Statement Items - Bonds, Stocks and Short-Term Investments (Page 10): It was recommended the Company obtain approval from the CDI of its Custodial Agreement with the Mellon Bank of California. The current Custodial Agreement did not contain provisions recommended by the NAIC Financial Examiners Handbook. Accordingly, it is recommended the Company submit the revised agreement to the CDI for approval.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/

Gordon M. Curtis, CFE, CISA
Examiner-In-Charge
Department of Insurance
State of California